



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

AMERICAN LIBERTY INSURANCE COMPANY

of

Provo, Utah

as of

December 31, 2020

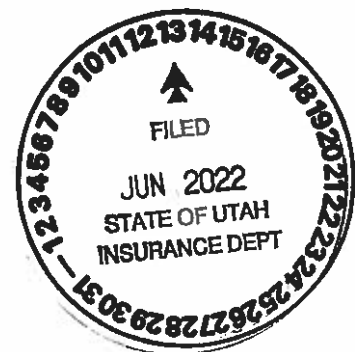


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June 8, 2022

Honorable Jonathan T. Pike, Commissioner
Utah Insurance Department
4315 S. 2700 West, Ste. 2300
Taylorsville, UT 84129

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, a multi-state examination, as of December 31, 2020, has been made of the financial condition and business affairs of:

AMERICAN LIBERTY INSURANCE COMPANY

Provo, Utah

hereinafter referred to in this report as “the Company”, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

This full-scope, multi-state examination of the Company was conducted by representatives of the Utah Insurance Department (Department) and covers the period of January 1, 2018, through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. This was a coordinated examination in which representatives of the Kansas Insurance Department, regulators of the Company’s parent company, Benchmark Holding Company (BHC), led the exam. The last examination of the Company covered the period of January 1, 2014 through December 31, 2017.

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination

does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in Utah Code §31A-2-204(7)(a) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There were no significant findings and recommendations for inclusion in this report.

COMPANY HISTORY

General

The Company was incorporated on May 5, 2004, as a mono-line writer of workers compensation insurance. It was originally a wholly owned subsidiary of ALIC Holding Company, Inc. The Company continues to write mono-line workers compensation and is currently licensed in 40 states.

On January 1, 2017, BHC acquired 75% of the Company's shares. On March 31, 2019, BHC purchased the remaining outstanding shares to acquire 100% ownership of the Company. There were two amendments to the Company Bylaws during this examination period, which were approved by the Department on February 25, 2020.

Effective October 1, 2019, the Company appointed Trean Corporation (TREAN) as its Managing General Agent. The ultimate controlling entity of the holding company is Trean Insurance Group (TIG) which became a public reporting entity on July 16, 2020, under the regulation of the U.S. Securities and Exchange Commission.

Dividends and Capital Contributions

The Company paid a dividend to BHC in the amount of \$6,333.33 on December 31, 2019, and \$7,333.33 on November 30, 2020.

The Company received capital contributions in the amount of \$1,300,000. This occurred on March 27, 2019, with Benchmark Insurance Company (BIC) purchasing \$400,000 of the Company's preferred stock and on September 27, 2019, BHC purchasing \$900,000 of shares of the Company's common stock.

Mergers and Acquisitions

Prior to the examination period, BHC purchased 75% of the Company's shares effective January 1, 2017. BHC completed the purchase of the remaining 25% of the Company's shares as of March 31, 2019.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The Company's Bylaws indicate that there shall be at least two (2) Directors and no more than twelve (12).

The following persons served as Directors of the Company as of December 31, 2020:

Name and Location	Title and Principal Occupation
Andrew M. O'Brien Long Lake, MN	President & CEO Trean Corporation
Julie A. Baron Edina, MN	CFO Trean Corporation
Truman B. Child Provo, UT	Vice President Trean Corporation
Joy N. Edler Edina, MN	COO Benchmark Insurance Company

Officers

The Company's Bylaws indicate that there shall be a President, Secretary and Treasurer. There must be a minimum of three (3) officers.

The officers of the Company as of December 31, 2020 were as follows:

Name	Title
Truman B. Child	President
Julie A. Baron	Treasurer
Joy N. Edler	Secretary
Stuart B. Worthington	Vice President

Committees

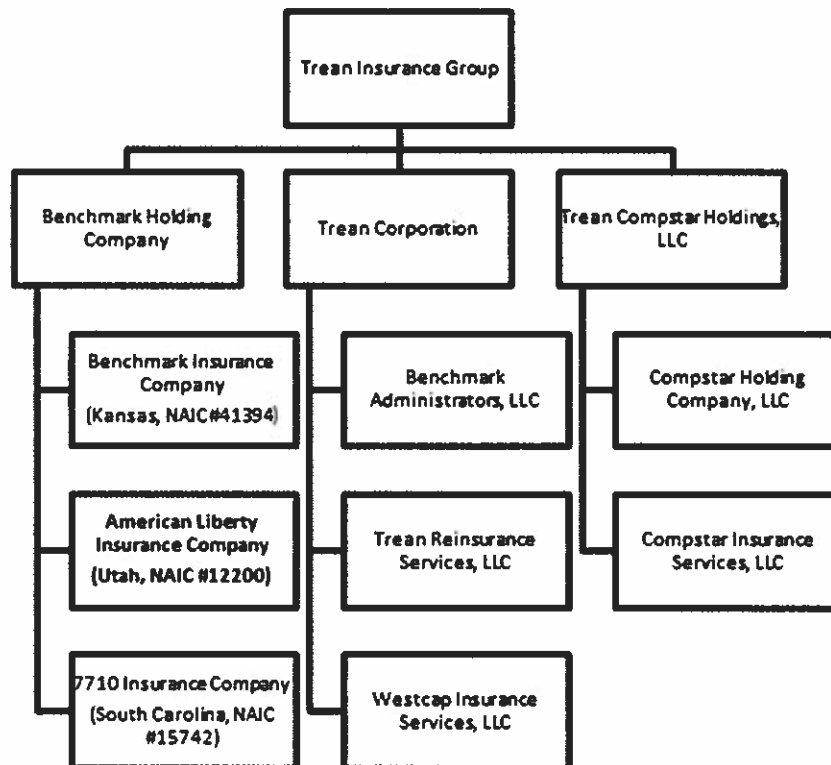
The Company's Bylaws require that an Audit Committee and Investment Committee be organized. Each committee shall consist of three (3) or more directors.

The committees and committee members as of December 31, 2020 were as follows:

Audit Committee	Investment Committee
Truman B. Child	Truman B. Child
Andrew M. O'Brien	Andrew M. O'Brien
Joy N. Edler	Joy N. Edler
Julie A. Baron	Julie A. Baron

Holding Company

The Company is part of a holding company system as defined in Utah Code §31A-16. This system underwent a restructuring effective July 15, 2020. The Company remains a wholly owned subsidiary of BHC. The ultimate controlling party is TIG and a simplified organizational chart illustrating the holding company system as of December 31, 2020 is as follow:



TRANSACTIONS AND AGREEMENTS WITH AFFILIATES

The following are the most significant affiliated agreements and transactions in place as of December 31, 2020:

Managing General Agent Agreement with TREAN

Under this agreement, effective as of October 1, 2019, TREAN provides all necessary operational functions for the Company. This includes the majority of management services, claims handling and underwriting functions, preparation of financial statements and regulatory required filings. For this service, the Company pays a fee of 17% of gross collected premium which amounted to \$2,480,497 for 2020.

Quota Share Reinsurance Agreement with BIC

Effective January 1, 2019, the Company entered into a 100% quota share contract with BIC. All net premiums, losses and underwriting expenses are ceded to BIC and result in \$0 Net underwriting gain (loss) to the Company.

Claim Service Agreement

The Company entered into a claim service agreement with affiliate Benchmark Administrators, LLC, effective October 1, 2019. The Company paid \$656,602 for this service in 2020.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the top three (3) states for direct written premiums were Arizona at 50.7%, Utah at 21.3%, and Louisiana at 16%.

The Company was licensed in the following forty (40) states and territories:

Alabama	Georgia	Missouri	Pennsylvania
Alaska	Hawaii	Montana	Rhode Island
Arizona	Indiana	Nebraska	South Carolina
Arkansas	Iowa	Nevada	South Dakota
California	Kansas	New Hampshire	Tennessee
Colorado	Kentucky	New Jersey	Texas
Connecticut	Louisiana	New Mexico	Utah
Delaware	Maryland	North Carolina	Vermont
District of Columbia	Minnesota	North Dakota	West Virginia
Florida	Mississippi	Oklahoma	Wyoming

REINSURANCE

Ceded Reinsurance

Effective January 1, 2019, the Company entered into a quota share reinsurance agreement with BIC whereby 100% of losses are ceded. This reinsurance contract has a retroactive provision whereby all future development (favorable and unfavorable) on these loss reserves related to prior reinsurance agreements is ceded to BIC. Furthermore, BIC guarantees payment of all third party recoverable due to the Company.

In addition, the Company has ceded reinsurance arrangements with sixteen (16) other reinsurers, as listed below:

Authorized Unaffiliated Reinsurers	8
Authorized Lloyd's Syndicates	2
Unauthorized Unaffiliated Reinsurers	2
Unauthorized Non-U.S. Reinsurers	4

As of the examination date, the Company ceded \$6,630,210 to its affiliate, and \$11,197,318 to non-affiliated companies.

Assumed Reinsurance

The Company assumed \$432,000 from National Workers Comp Reinsurance Pool for 2020.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2020.

The accompanying COMMENTS ON FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

AMERICAN LIBERTY INSURANCE COMPANY

BALANCE SHEET

as of December 31, 2020

<u>Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 12,870,557
Cash, equivalents and short-term investments	2,869,919
Investment income due and accrued	89,908
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,649,258
Amounts recoverable from reinsurers	13,220
Current federal and foreign income tax recoverable and interest thereon	43,231
Net deferred tax asset	126,000
Total assets	\$ 20,662,093
 <u>Liabilities, Capital and Surplus</u>	
Losses	\$ 3,738,282
Loss adjustment expenses	835,398
Commissions payable, contingent commissions and other similar charges	621,772
Other expenses	120,513
Advance premium	162,117
Ceded reinsurance premiums payable	2,147,960
Funds held by company under reinsurance treaties	5,100,317
Amounts withheld or retained by company for account of others	612,191
Payable to parent, subsidiaries and affiliates	369,762
Aggregate write-ins	287,453
Total liabilities	\$ 14,378,092
 Common capital stock	 2,504,473
Gross paid in and contributed surplus	5,508,121
Unassigned funds (surplus)	(1,728,592)
Total Capital and Surplus	6,284,001
Total Liabilities, Capital and Surplus	\$ 20,662,093

AMERICAN LIBERTY INSURANCE COMPANY

STATEMENT OF INCOME

as of December 31, 2020

Revenue

Net investment income earned	\$	135,244
Net realized capital gains (losses)		<u>37,828</u>
Net investment gains (losses)		173,073
Aggregate write-ins for other income or expenses		<u>0</u>
Net income after capital gains, before federal income taxes		173,073
Federal and foreign income taxes incurred		<u>61,654</u>
Net income	\$	<u>111,419</u>

AMERICAN LIBERTY INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2018 through 2020

<u>Capital and Surplus Account</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Surplus as regards policyholders	\$ 5,947,482	\$ 4,672,719	\$ 3,522,977
Net Income	111,419	266,024	786,240
Change in net deferred income tax	(2,672)	(32,323)	(12,318)
Change in nonadmitted assets	235,106	(252,604)	49,230
Capital changes: Paid in	-	1,300,000	-
Dividends to stockholders	(7,333)	(6,334)	-
Aggregate write-ins	-	-	326,950
Change in surplus as regards policyholders	<u>336,518</u>	<u>1,274,763</u>	<u>1,149,742</u>
Surplus as regards policyholders	<u>\$ 6,284,001</u>	<u>\$ 5,947,482</u>	<u>\$ 4,672,719</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as of December 31, 2020 as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

The Company's capital and surplus in the amount of \$6,284,001 exceeded the authorized control level risk-based capital of \$522,868.

There are no comments on financial statement items as of December 31, 2020 as a result of the examination.

SUBSEQUENT EVENTS

TIG became an independent Company on May 19, 2021, as Altaris Funds ownership decreased under 50% due to an offering of shares.

ACKNOWLEDGEMENT

Noble Consulting Services, Inc. performed the review of the Information Technology and financial examination portion. Alan Kalinski, FCAS, MAAA and McKay Heasley, FSA, MAAA, of Eide Bailly LLP reviewed the actuarial portion of the examination. Representatives from Kansas Insurance Department supervised the overall examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,



Alan Monsen, APIR

Examiner-in-Charge

Utah Insurance Department



Malis Rasmussen, MSA, CFE, SPIR

Chief Financial Examiner

Utah Insurance Department